

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

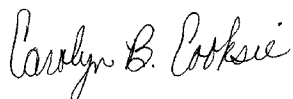
Notice FLP-22

1941-A, 1943-A, 1980-B

For: State and County Offices

Determining Years of Loan Eligibility

Approved by: Deputy Administrator, Farm Loan Programs



1 Overview

A

Background

The Agricultural Credit Improvement Act of 1992, enacted October 28, 1992, placed a limitation on loan assistance. The limitation affected the number of years applicants are eligible to receive direct and guaranteed operating (OL) loans. The Federal Agriculture Improvement and Reform Act of 1996, enacted on April 4, 1996, modified these eligibility limits, which affect anyone who has signed a promissory note for each applicable loan type, and placed a limit on eligibility for direct farm ownership (FO) loans.

B

Purpose

This notice clarifies the eligibility limitations for new applicants and existing borrowers who apply for direct or guaranteed loans after October 28, 1992 and April 4, 1996.

Disposal Date

January 1, 2000

Distribution

State Offices; State Offices relay to County
Offices

2 New Borrowers

A

Direct OL Loans

The following apply to applicants who have **never** received a direct OL loan:

- the applicant is eligible for direct OL loans for 7 calendar years
- once a direct OL loan is closed in a year, additional direct OL loans may be closed within that same year without affecting subsequent years of eligibility
- the 7 years of eligibility are independent of each other and do not have to be consecutive
- guaranteed OL loans do not count against the direct loan eligibility period
- youth loans do not count toward eligibility.

Example: A borrower receives a direct annual OL loan in January 1997, a subsequent direct OL loan to purchase equipment in August 1997, and another direct annual OL loan in 1998. The borrower does not receive any loans in 1999. As of January 1, 2000, only 2 years of eligibility have been used.

B

Direct FO Loans

The following apply to applicants who have **never** received a direct FO loan:

- a borrower is limited to 10 years of eligibility beginning from the date the first direct farm ownership loan is closed
- any subsequent direct FO loans must be obtained during this 10-year window.

Example: A borrower closes a direct FO loan on February 10, 1997. If the loan is still outstanding on April 10, 2000, 3 years and 2 months of eligibility have been used and the borrower would remain eligible for additional direct FO loans until February 10, 2007.

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2 New Borrowers (Continued)

C

Guaranteed OL Loans

The following apply to applicants who have **never** received a guaranteed OL loan:

- a borrower is limited to 15 calendar years of guaranteed OL loans
- direct OL loans count against the 15-year eligibility period for guaranteed OL loans; therefore, a borrower who received direct OL loans for 7 years would be eligible for only 8 years of guaranteed OL loans
- once a guarantee has been issued in a year, additional guarantees may be issued in the same year without affecting the number of years of eligibility remaining
- the number of eligible years do not have to be consecutive
- the year in which the guarantee is issued is the only year that is counted toward eligibility, except for advances on lines of credit (LOC)

Note: After October 28, 1992, each year an advance is made on LOC counts against the eligibility limitation.

- a 5-year LOC could be issued in the last year of eligibility and advances made for the full 5 years.

Example: A borrower receives a 5-year guaranteed LOC in January 1997, a loan note guarantee to purchase equipment in August 1997, and another advance on LOC in 1998. No additional guarantees were issued or advances made in 1999. As of January 1, 2000, only 2 years of eligibility have been used.

3 Existing Borrowers

A

Direct OL Loans

The following apply to the remaining years of eligibility for **existing** borrowers who have received direct OL loans.

- **Transition Rule** - If, as of April 4, 1996, a borrower had received direct OL loans in 4 or more, **separate** years, **before** the year in which the new loan will close, the borrower is eligible for direct OL loans for 3 more years starting with loans closed after April 4, 1996.

Example 1: A borrower received direct OL loans in 1992, 1993, 1994, 1995, and February 1996. The borrower meets the transition rule. The borrower's 3 additional years will begin with the first loan closed after April 4, 1996.

If this borrower received a direct OL loan on April 5, 1996, 1997, and 1998, the borrower will have exhausted eligibility for direct OL loans.

Example 2: A borrower received direct OL loans in 1990, 1992, 1993, 1994, and 1995. The borrower meets the transition rule. The borrower's 3 additional years will begin with the first loan closed after April 4, 1996.

- **Does Not Meet Transition Rule** - If, as of April 4, 1996, a borrower has received direct OL loans in less than 4 **separate** years, **before** the year in which the new loan will close, the borrower is eligible for direct OL loans for a number of additional years computed by subtracting the number of separate, prior years in which direct OL loans have been closed from 7.

Example 1: A borrower received loans in 1993, 1994, 1995, and January 1996. The borrower applies for a loan in June 1996. The borrower does not meet the transition rule because the borrower did not receive loans in 4 or more **separate** years **before** the year in which the new loan closed. The general rule applies and this borrower is eligible for 3 years of loans beginning in calendar year 1997.

Example 2: As of April 4, 1996, a borrower received direct OL loans in 1993, 1994, and 1995, the borrower would have 4 years (7 minus 3 equals 4) of eligibility remaining starting after April 4, 1996. Therefore, if the borrower got direct OL loans in October 1996, 1997, and 1998, the borrow would have 1 year of eligibility remaining.

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3 Existing Borrowers (Continued)

B

Direct FO Loans

The following apply to the remaining years of eligibility for **existing** borrowers who have received direct FO loans.

- If, as of April 4, 1996, a borrower had 1 or more direct FO loans outstanding for 5 or more separate years, regardless of the number of loans received or outstanding, the borrower is eligible for additional direct farm ownership loans until April 4, 2001

Example: A borrower received a direct FO loan on February 20, 1989, and another loan in 1994. As of April 4, 1996, the borrower had direct FO loan indebtedness outstanding for 8 years (1989, 1990, 1991, 1992, 1993, 1994, 1995, and 1996). The borrower is eligible for additional direct FO loans until April 4, 2001.

- If, as of April 4, 1996, a borrower had direct FO loans outstanding for less than 5 years, regardless of the number of loans received or outstanding, the borrower is eligible for additional direct farm ownership loans until April 4, 2006.

Example: A borrower received a direct FO loan on June 28, 1994. As of April 4, 1996, the borrower would have had a direct FO loan indebtedness outstanding for 3 years (1994, 1995, 1996). The borrower is eligible for additional direct FO loans until April 4, 2006.

C

Guaranteed OL Loans

The following apply to the remaining years of eligibility for **existing** borrowers who have received guaranteed OL loans.

- **Transition Rule** - If, as of October 28, 1992, a borrower had received direct OL loans, loan note guarantees, and/or an initial advances on a guaranteed LOC in 10 or more separate years, regardless of the number of loans or guarantees received, before the year in which the new guarantee and/or LOC advance is to be issued, the borrower is eligible for 5 more years of guaranteed OL's
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3 Existing Borrowers (Continued)

C

Guaranteed OL Loans (Continued)

- **Does Not Meet Transition Rule** - If, as of October 28, 1992, a borrower had received direct OL loans, loan note guarantees, or an initial advance on LOC's in less than 10 separate years, regardless of the number of loans or guarantees received, before the year in which the guarantee and/or LOC advance is to be issued, the borrower is eligible to receive guaranteed OL's in additional years until the 15-year limitation is reached.

Notes: A 5-year LOC could be issued in the last year of eligibility and advances made for the full 5 years.

Each year that an advance is made on LOC after October 28, 1992, counts as a year of eligibility.

Every existing borrower was given at least 5 more years of eligibility for guaranteed OL loans or LOC advances after October 28, 1992, regardless of the number of years that loans had been received before that date.

Example: (Transition Rule): A borrower received either operating loans or LOC's in 1981 (direct), 1982 (direct), 1983 (direct), 1984 (direct), 1985 (direct), 1986 (direct), 1987 (loan note guarantee), 1988 (loan note guarantee), 1989 (loan note guarantee), 1990 (initial advance guaranteed LOC), 1991 (subsequent advance guaranteed LOC), and January 1992 (subsequent advance guaranteed LOC). (The 1991 and January 1992 subsequent advances on the 1990 LOC do not count against the eligible years).

The borrower received a combination of guaranteed and direct OL loans in 10 separate years; therefore, the borrower has 5 more years of eligibility for guaranteed operating loans. If the borrower continues to obtain guaranteed operating credit (whether through loan note guarantees, initial LOC's and/or advances made on LOC's) in 1993, 1994, 1995, 1996, and 1997, this borrower would be ineligible for guaranteed OL loans in 1998.

However, because **every** borrower was granted 3 additional years of eligibility for direct OL loans after April 4, 1996, this borrower would be eligible for direct OL loans for 3 more years beginning with the first direct OL loan closed after April 4, 1996.

Notice FLP-22

4 Additional Information

A

Flow Chart

Exhibit 1 is a flow chart which will facilitate understanding the various loan limitation scenarios.

B

Questions

State Offices may direct questions about this notice to Kathleen Miller, LMD at 202-720-1643.

Flow Chart With Different Loan Limitation Scenarios

